

CALCULATION OF COST SAVINGS FROM THE REFORMS							
(\$Billions)							
			Low Savings	Middle Savings	High Savings		
Rates Not Adjusted for Rate Adequacy							
(1)	7/1/03 Pure Premiums Based on CDI Approved Rates	4.81					
(2)	1/1/06 Pure Premiums Assuming No Reforms	6.52					
<u>Adjustment for Rate Adequacy</u>							
(3)			25%	14%	2%		
<u>Rates Adjusted for Rate Adequacy</u>							
(4)	7/1/03 Pure Premiums Based on CDI Approved Rates (1) / [1+(3)]		3.84	4.23	4.70		
(5)	1/1/06 Pure Premiums Assuming No Reforms (2) / [1+(3)]		5.20	5.74	6.37		
			CDI	WCIRB	Low Savings	Middle Savings	High Savings
(6)	1/1/06 Rates (Post-reform)	2.59	2.57	2.90	2.46	2.01	
<u>Reduction in CDI Rates</u>							
(7)	Compared to 7/1/03 Rates Adjusted for Rate Adequacy (6) CDI /(4) - 1			(33%)	(39%)	(45%)	
(8)	Compared to 1/1/06 Rates Assuming no Reforms, Adjusted for Rate Adequacy (6) CDI /(5) - 1			(50%)	(55%)	(59%)	
<u>% Savings Due to Reforms</u>							
(9)	Compared to 7/1/03 Rates Adjusted for Rate Adequacy (6) BRS/(4) - 1			(25%)	(42%)	(57%)	
(10)	Compared to 1/1/06 Rates Assuming No Reforms, Adjusted for Rate Adequacy (6) BRS /(5) - 1			(44%)	(57%)	(68%)	
(11)	<u>Estimated Payroll for Policies Incepting in 2006 (\$Billions)</u>	457	457	457	457	457	
<u>\$\$ Savings Due to Reforms</u>							
(12)	Compared to 7/1/03 Rates Adjusted for Rate Adequacy (11) x [(4) - (6)] / 100			4.3	8.1	12.3	
(13)	Compared to 1/1/06 Rates Assuming No Reforms, Adjusted for Rate Adequacy (11) x [(5) - (6)] / 100			10.5	15.0	19.9	

CALCULATION OF 2006 WORKERS' COMPENSATION PAYROLL		
(\$Billions)		
Policies Written January 1, 2005 - June 30, 2005		
(1)	Written Premium (Gross of Deductible): 1/1/05-6/30/05	11.4
(2)	Average Insurer Rate 1/1/05 - 6/30/05	5.37
(3)	Implied Payroll 1/1/05 - 6/30/05 (1)/(2) X 100	212
Policies Written July 1, 2005 - December 31, 2005		
(4)	Written Premium (Gross of Deductible): 1/1/05-9/30/05	16.3
(5)	Written Premium (Gross of Deductible): 6/30/05-9/30/05 (4) - (1)	4.9
(6)	Average Insurer Rate	4.42
(7)	Payroll 6/30/05 - 9/30/05 (5)/(6) X 100	111
(8)	Payroll 6/30/05 - 12/31/05 (7) x 2	222
Trend Factor to 2006		
(9)	Average Payroll Date for Policies Written in 2005	12/31/05
(10)	Average Payroll Date for Policies Written in 2006	12/31/06
(11)	Estimated Total CA Wages in 2005	552.1
(12)	Estimated Total CA Wages in 2006	586.5
(13)	Estimated Total CA Wages in 2007	613.2
(14)	Estimated Total CA Wages for Period Covering Policies Incepting in 2005 [(11)+(12)] / 2	569.3
(15)	Estimated Total CA Wages for Period Covering Policies Incepting in 2006 [(12)+(13)] / 2	599.9
(16)	Trend from 2005 to 2006 Policies (15)/(14)	1.054
2006 Payroll Compared to 1/1/06 Rates Assuming No Reforms, Adjusted for Rate Adequacy		
(17)	Payroll of Policies Written in 2005 (3)+(8)	434
(18)	Payroll of Policies Written in 2005 (16) x (17)	457
(1) CHSWC: <i>Selected Indicator in Workers' Compensation: A Report Card for Californians</i> , page 10 (2) WCIRB <i>Summary of September 30, 205 Insurer Experience</i> , Exhibit 2 (4) WCIRB <i>Summary of September 30, 205 Insurer Experience</i> , Exhibit 1 (6) WCIRB <i>Summary of September 30, 205 Insurer Experience</i> , Exhibit 2 (11) CA Employment Development Department, <i>October 2005 Unemployment Insurance Fund Forecast</i> , page 6 (12) CA Employment Development Department, <i>October 2005 Unemployment Insurance Fund Forecast</i> , page 6 (13) CA Employment Development Department, <i>October 2005 Unemployment Insurance Fund Forecast</i> , page 6		

ACCURACY OF 7/1/03 PURE PREMIUM RATES				
ACCURACY REFLECTING IMPACT OF REFORMS ON POLICIES INCEPTING 7/1/03 - 12/31/03				
		Low	Middle	High
Unadjusted Estimates				
(1) CDI Approved Rate Change 7/1/03	7.2%			
(2) Indicated Rate Change 7/1/03 Based on Retrospective Experience	(26.0%)			
(3) Amount that Losses Were Overestimated [1+(1)]/[1+(2)] - 1	45%			
(4) Amount of Cost Savings Due to Reforms		16%	27%	42%
(5) Overestimation Net of Reforms [1+(3)] / [1+(4)] - 1		25%	14%	2%

ACCURACY OF 7/1/03 PURE PREMIUM RATES				
IMPACT OF CHANGES TO MEDICAL FEES ON POLICIES INCEPTING 7/1/03 - 12/31/03				
		Low	Middle	High
<u>Medical Savings (expressed as a % of Medical Costs)</u>				
(1)	Medical Fees	9%	9%	9%
(2)	Other Medical	10%	20%	30%
(3)	Total Medical	18%	27%	36%
	$-([1-(1)] \times [1-(2)] - 1)$			
<u>Indemnity Savings (expressed as a % of Indemnity Costs)</u>				
(4)	PD Schedule	2%	11%	24%
<u>Distribution of Total Losses</u>				
(5)	Medical as a % of Total	57%	57%	57%
(6)	Indemnity as a % of Total	43%	43%	43%
<u>Total Savings</u>				
(7)	Due to Medical = (3) x (5)	10%	16%	21%
(8)	Due to Indemnity = (4) x (6)	1%	5%	10%
(9)	Due to impacts that Affected Both Medical & Indemnity	5%	10%	18%
(10)	Total	16%	27%	42%
	$-([1-(7)] \times [1-(8)] \times [1-(9)] - 1)$			

ACCURACY OF 7/1/03 PURE PREMIUM RATES	
IMPACT OF CHANGES TO MEDICAL FEES ON POLICIES INCEPTING 7/1/03 - 12/31/04	
(1) Percent of Claims Occurring in 2003 Assumes Policies Written Evenly Throughout the Period 7/1/03-12/31/03 Assumes Claims Occur Evenly During Policy Period	0.25
(2) Average Date of Injury of Accident Year 2003 Claims Assumes Claims Occur Evenly During Policy Period	10/31/2003
(3) Percent Medical Paid as of 12/31/03 (for those claims occurring in 2003) Based on (2) and industry loss development	3.3%
(4) Percent of Total Medical Costs Already Paid as of 12/31/03 (1)x(3)	0.82%
(5) Percent of Costs Subject to Medical Fee Changes 1 - (4)	99.18%
(6) Percent Savings on Medical Due to Medical Fee Changes If All Claims were subject to fee changes	9.40%
(7) Reflecting that some payments were made in 2003 (6) x (5)	9%

ACCURACY OF 7/1/03 PURE PREMIUM RATES			
IMPACT OF REFORMS ON MEDICAL COSTS OTHER THAN MEDICAL FEES ON POLICIES INCEPTING 7/1/03 - 12/31/03			
	Low	Middle	High
(1) Percent of Claims Occurring Before Reforms	0.38	0.35	0.33
Assumes Policies Written Evenly Throughout the Period 7/1/03-12/31/03			
Assumes Claims Occur Evenly During Policy Period			
(2) Average Date of Injury of Pre-reform Claims	11/27/2003	11/23/2003	11/19/2003
Assumes Claims Occur Evenly During Policy Period			
(3) Percent Medical Paid Prior to Reforms	4.1%	4.0%	3.9%
Based on (2) and industry loss development			
(4) Percent of Total Medical Costs Already Paid as of 12/31/03	1.5%	1.4%	1.3%
(1)x(3)			
(5) Percent of Costs Subject to Medical Fee Changes	98.5%	98.6%	98.7%
1 - (4)			
Percent Savings on Medical Due to Medical Fee Changes			
(6) If All Claims were subject to fee changes	10.0%	20.0%	30.0%
(7) Reflecting that some payments were made prior to reforms	10%	20%	30%
(6) x (5)			

ACCURACY OF 7/1/03 PURE PREMIUM RATES			
IMPACT OF REFORMS ON MEDICAL COSTS OTHER THAN MEDICAL FEES ON POLICIES INCEPTING 7/1/03 - 12/31/03			
	Low	Middle	High
(1) Projected Ultimate Loss			
Accident Year 2003	4,960	4,960	4,960
Accident Year 2004	4,055	4,055	4,055
(2) Savings From Reform			
Accident Year 2003	44	327	762
Accident Year 2004	85	481	1,068
(3) Savings as a Percent of Total Indemnity Costs by Accident Year			
Accident Year 2003	0.9%	6.6%	15.4%
Accident Year 2004	2.1%	11.9%	26.3%
(2) / (1)			
(4) Percentage Distribution of Policies Incepting 7/1/03 - 12/31/03			
Accident Year 2003	25%	25%	25%
Accident Year 2004	75%	75%	75%
Assumes annual policies written evenly throughout the period			
(5) Savings as a Percent of Total Indemnity Costs for Policies Incepting 7/1/03-12/31/03	2%	11%	24%
Weighted Average of (3) using (4) as weights			

Accuracy of 7/1/03 Pure Premium Rates				
Impact of AB 749 on Policies Incepting 7/1/03 - 12/31/03				
(1) Projected Ultimate On-Level Pure Premium Rate by Accident Year	Indemnity	Medical	Total	
Accident Year 2002	0.343	0.518	0.861	
Accident Year 2003	0.283	0.448	0.731	
Accident Year 2004	0.246	0.346	0.592	
WCIRB Actuarial Committee Meeting 12/1/05, Exhibit 6, pages 1 & 2 (III-A-13,14)				
(2) Percentage Distribution of Costs and Premium by Policy Period	% 2002	% 2003	% 2004	
Policies Incepting 7/1/02-12/31/02	25%	75%		
Policies Incepting 7/1/03-12/31/03		25%	75%	
(3) Projected Ultimate On-Level Pure Premium Rate by Policy Period	Indemnity	Medical	Total	Percent Change
Policies Incepting 7/1/02-12/31/02	0.298	0.466	0.764	
Policies Incepting 7/1/03-12/31/03	0.255	0.372	0.627	(17.9%)
Based on (1) and (2)				
(4) Percentage Change Due to AB 749	Low	Middle	High	
	(5.0%)	(10.0%)	(18.0%)	